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LAC-IEE-05-21

ENVIRONMENTAL THRESHOLD DECISION

Country: Colombia

Activity Title: SO2: Additional Investment for Sustainable Alternative Development (MIDAS)

Activity Number: 514-008

Life of Project: FY 2006 – FY 2010

Life of Project Funding: \$160 million

IEE Prepared by: Gabriel Escobar, USAID/Colombia, Mission Environmental Officer

Date Prepared: July 15, 2005

Recommended Threshold Decision: Categorical Exclusion/Negative Determination with Conditions/Positive Determination

Bureau Threshold Decision: Categorical Exclusion/Negative Determination with Conditions/Positive Determination

Comments:

This Environmental Threshold Decision covers the Integrated Sustainable Development of Indigenous Groups in National Park Buffer Zones in Colombia.

- a) Pursuant to 22 CFR 216.2(c)(2) (i), (iii), and (xiv) a **Categorical Exclusion** is issued for MIDAS sub-activities involving education, technical assistance, training, analyses, studies, academic or research, workshops and meetings, and

activities intended to develop the capability of recipient countries to engage in development planning, except to the extent designed to result in activities directly affecting the environment (such as construction of facilities).

- b) A **Negative Determination with conditions** is recommended for the activities of producing and processing natural rubber, hearts of palm, cassava, passion fruit, cacao, oil palm, forestry and agro-forestry, with the condition that the recommendations from the USAID/LAC/BEO approved Environmental Assessments for these activities, will continue to be applied in full and used in the implementation of the projects. The Mission Environmental Officer and CTO will oversee the use of these EAs in the implementation of the projects by the contracting organizations. Reports on these matters will be submitted by the Mission to the USAID/LAC/BEO on an annual basis.
- c) A **Negative Determination with conditions** for the activities of agricultural producing and processing the products mentioned in the list of guidelines (Annex 2). The condition is that the mentioned guidelines will be fully used and applied in the implementation of these activities. The Mission Environmental Officer, CTO, and contractor(s) will oversee the use of these guidelines. Reports on these matters will be submitted by the Mission to the USAID/LAC/BEO on an annual basis.
- d) A **Negative Determination with Conditions** is recommended for the use of pesticides in the production of the attached list of agricultural products included in the approved PERSUAP (Annex 1), with the condition that the recommendations from the PERSUAP will continue to be fully applied in the implementation of these activities. The Mission Environmental Officer, CTO and contractor(s) will oversee the implementation and use of the PERSUAP. Within the first six months of implementation of MIDAS, the mission will conduct a complete evaluation of the listed Programmatic Environmental Assessments, EAs, PERSUAP and other mission environmental guidelines to determine their effectiveness. This evaluation will be approved by the Mission Environmental Officer and the USAID/LAC/BEO. Additional reports on these matters will be submitted by the Mission to the USAID/LAC/BEO on an annual basis
- e) A **Negative Determination with Conditions** is recommended for the industrial activities of leather processing, food processing, and wet textile operations with the condition being the full use and application, in the implementation of the projects, of the listed Guidelines (Annex 2). The use of this Guidelines and their implementation will be overseen by the Mission Environmental Officer, CTO and contractor(s). Reports on these matters will be submitted by the Mission to the LAC/BEO on an annual basis.
- f) A **Negative Determination with Conditions** is recommended for the development and implementation of strategic management upgrading, technology transfer and market development/access programs designed to facilitate the

development of sustainable commercial forestry niches, agro-forestry and wood product related value chain and cluster development opportunities, and related plantation forestry development and management initiatives; with the condition being to follow the same procedures established in the EA for the CFDP as follows:

1. All forest management plans developed under the MIDAS program should use the CAD-developed Villa Garzon management plan format, approved by the BEO, as the basis for their development. Improvements to the plan should be proposed and implemented based on ongoing experience in Putumayo, as well as other projects funded by USAID throughout the region.
2. Likewise all forest management plans should be based on the FSC principles and criteria and standards established by the Technical Working Group for Voluntary Certification in Colombia (GTCFV). One of the goals of the forest management activities should be to become certified by some recognized certifying organization.
3. The MIDAS program shall plan training programs in the different regions on sustainable forest management plan development, implementation and monitoring. Audience target: communities, loggers, forest product companies, NGOs and local government officials in the CARs and municipalities. These training programs should use the Villa Garzon management plan outline as the basis for these courses. Additional themes such as the importance and identification of archeological sites and the relationship between the management unit and surrounding protected areas should be included in the training.
4. The MIDAS program shall contract support from the GTCFV to provide training on certified forest management and the certification process. These activities should be clearly integrated with the other MIDAS training programs.
5. An overall training program on issues related to the significant and non-significant issues and the overall environmental review program related to forest management should be presented to the CTO and MEO for their approval on an annual basis. While to a certain extent, this is in the LOP work plan, the mentioned training activities should be reviewed and incorporated into a more detailed training plan.
6. The Regional Environmental Advisor (REA) will be in charge to review each forest management plan to determine that the plan is indeed compatible with the FSC principles and criteria and USAID regulations. Note that later in the project life and after training supported by the MIDAS program, this task may be delegated to specific CARs if they are determined capable of playing this role.

7. A separate contract should be competitively issued to design and conduct an initial study and subsequent system to assess, document, and monitor the environmental impact of the forest management activities. This should be done within one year of the initial harvesting activities under the forest management plans.
 8. The MIDAS program should provide the appropriate documentation to the CTO and MEO to assure that these steps are being completed. To do so, they should identify a team member to be responsible for and oversee this process.
- g) A **Positive Determination** for the production and processing of agricultural projects not included in the list referred to points c) and e) of this approval, and for other infrastructure, and/or industrial projects that may cause significant environmental impacts. Following the present determination, the Mission will use a similar procedure to that utilized in 2002 to 2004, taking special care to follow the ER procedures established in the PEA approved by LAC/BEO on 4/28/03. Based on these procedures, the MEO will determine which activities/projects may use the ER process and which activities will require the preparation of an EA. Environmental considerations, including monitoring and training, will be included in contractual documents related to the above components of SO2.

CTOs are responsible for making sure environmental conditions are met. It is the responsibility of the SO Team to ensure that activity related SOAGs, MAARDs and contracting documents contain specific instructions reflecting this Threshold Decision. Local implementing partners will be made fully aware of the environmental mitigation and monitoring requirements presented in this IEE.

_____ Date _____

Victor H. Bullen
Bureau Environmental Officer
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INITIAL ENVIRONMENTAL EXAMINATION
SO2: Additional Investment for Sustainable Alternative Development (MIDAS)

STRATEGIC OBJECTIVE LOCATION: Colombia

TITLE: SO2: Additional Investment for Sustainable Alternative Development (MIDAS)

ACTIVITY NUMBER: 514-008

LOP FUNDING: \$160,000,000

LIFE OF STRATEGIC OBJECTIVE: Five Years - FY 2006 to FY 2010

IEE DRAFTED BY: Gabriel Escobar, USAID/Colombia, Mission Environmental Officer

I. Background

AADO's main challenge now is to determine the most cost effective way to consolidate the various on-going initiatives to achieve the Mission's goal of sustainable reduction in the production of illicit drugs and the promotion of peace in Colombia. Illicit production has shifted from large scale production in extensive areas to small production units co-located in more populous areas with traditional crops, and into protected national parks. As of September 30, 2004, 22,803 hectares of illicit crops have been manually eradicated in conjunction with USAID's Alternative Development Program.

USAID's strategy will focus upon creating sustainable economic activities through the various facets of the MIDAS Program, and at the same time, the program is designed to insure that efforts are taken to eradicate illicit crops. MIDAS will emphasize production of licit crops and their sustainable integration into market development networks.

By focusing on the pre-conditions for sustainable economic development at the regional and local level in vulnerable areas, the MIDAS Program will discourage a simple shift of illicit production locations as eradication progresses. As a result, of the calculated and systematic shift of production, vulnerable communities will be put in the best possible position to permanently turn away from involvement in illicit drug production/commercialization activities.

The USAID Alternative Development (AD) program supports activities designed to encourage small farmers in regions primarily influenced by the cultivation of illicit crops to embrace the legal economy. This challenging task is accomplished through strengthening local and national institutions and non-Governmental organizations

(NGOs), establishing productive infrastructure, implementing profitable productive activities, and promoting the sustainable management of natural resources. Through FY 2004, the AD program has supported 55,071 hectares of licit crops, improved the management and conservation of 25,820 hectares of forests, completed 664 infrastructure projects, such as schools, sewage treatment systems, health centers, sports facilities (in 13 municipalities located in coca growing areas), thus benefiting 44,015 families.

USAID's strategy will focus upon creating sustainable economic activities through the various facets of the MIDAS Program, and at the same time, to insure that efforts are taken to eradicate illicit crops. By emphasizing production of licit crops and their sustainable integration into market development networks, and by focusing on the pre-conditions for sustainable economic development at the regional and local level in vulnerable areas, the MIDAS Program will discourage a simple shift of production location as eradication progresses and put vulnerable communities in the best possible position to turn away permanently from involvement in drug production/commercialization activities.

Consistent with the preceding analyses, the MIDAS Program will contribute to the achievement of core USG foreign policy objectives in Colombia through focusing on establishment of the policy and institutional preconditions for sustainable and equitable economic growth in the country. Through MIDAS, USAID will launch innovative productive sector intervention programs designed to stimulate private investment, and promote sustainable income, employment, and export creation capacity in key sectors of the economy. Through strategic interventions designed to improve the capacity of the private sector to respond buoyantly to the trade integration challenges and opportunities associated with regional trade/investment integration trends, MIDAS will play a critical role in helping place Colombia on a sustainable medium-term economic growth path.

These interventions will be primarily targeted towards the Small and Medium Sized Enterprisers (SME), agribusiness, agro-forestry, and micro-finance sectors, reflecting the enormous unrealized income, export, and job-creation potential of those sectors. The program will focus on the development and implementation of sustainable strategies for improving technology transfer, financial and operational management, and market development capacity in these areas of the economy. This will be achieved through direct program impact on participating enterprises/associative institutions, and through the demonstration effect impact of the programs on non-participants, and through specific institutional strengthening strategies designed to create permanent market-based service provision capacity in the technical and planning support areas covered under MIDAS.

Moreover through strategic interventions designed to target critical policy and institutional constraints, MIDAS will significantly improve Colombia's competitive capacity to respond to market opportunities. In the policy area, this will include an intensive focus on macro/fiscal, financial sector, and structural policy constraints that limit and/or distort private investment incentives in a manner which constrains the volume and efficiency of private investment; and mutes the income and employment-generation impact of private investment activities. In the institutional reform area, this

will include a range of key institutional strengthening efforts required to remove cross-cutting institutional barriers which limit the capacity of the private sector to maximize their income and job-creation potential. These would include critical themes such as financial market (including SME and micro-finance) and land market access constraints, technical barriers to trade, sanitary and phyto-sanitary requirements, environmental enforcement, and competition policy enforcement.

Strategic productive sector and policy/institutional reform support programs/efforts would be organically linked to ensure that they are mutually reinforcing and together generate the maximum direct and demonstration effect-based impact on sustainable and equitable economic growth in Colombia. Productive sector efforts will be concentrated principally in six corridor zones. These are major geographic areas where USAID plans to pursue the integrated implementation of alternative development investments with a range of critical institutional strengthening interventions, including this MIDAS program. Annex B consists of a map of these corridors and Annex C provides a detailed description of the criteria used for corridor selection. Wherever possible, MIDAS activities should seek to coordinate with and reinforce the activities of other USAID programs occurring in these corridors.

II. Program Description:

Looking forward, USAID attention must be focused upon galvanizing strategic private sector response capacity to the economic growth opportunities and challenges associated with a healthier macroeconomic setting and an integrated trade/investment environment. The Colombian private sector reflects a broad continuum of entities which range from large, sophisticated corporations owned by Colombian or multinational investors, down to the single entrepreneur engaged in a micro enterprise business venture. Each class of business entity has the potential to expand its operations and to create new job opportunities that will encourage the unemployed to avoid the entrapment of illicit activities. USAID's goal will be to provide the SME sector with strategic institution-building support programs designed to address in a sustainable manner the primary informational and market development barriers which limit SME growth potential in Colombia.

Thus the core specific technical/training support components to be undertaken through MIDAS will include SME development, agribusiness development, agro-forestry development, micro-finance, and a related cross-cutting economic policy/institutional reform support program. It is expected that these activities will be supported in a synchronized and mutually reinforcing manner which maximize the impact which program activities have on (1) placement of the Colombian economy on a sustainable and equitable medium term growth trajectory; (2) the sustainable operation of a network of public and private sector institutions which are committed to and contribute effectively to the creation of an appropriate enabling environment for strong market-based private sector development in Colombia. The main activities to be implemented under MIDAS are outlined below:

III. Illustrative Activities

The main activities to be implemented under MIDAS are outlined below:

A. SME Development:

The program will focus on the development and implementation of innovative support strategies and programs designed to facilitate a strong expansion in investment, production, exports, and employment in the SME sector. The core focus of the program will be on defining and effectively addressing the core financial and operational management, technology transfer, and market development/access constraints which limit the competitive capacity of the Colombian SME sector. Particular focus will be given to the development of a network of institutions which are able to serve as catalytic agents for the expanded application of improved enterprise development skills on a systemic basis.

The program will be expected to take full advantage of and build upon the expansive network of institutional relationships/contacts built up through the current Colombia Enterprise Development (CED) Program, and to build critical linkages with local, regional, and international institutions in a manner which contributes to the sustainable expansion of management know-how, technology transfer and market development/access knowledge and skills.

A core focus of this effort will entail the development of strategic relationships with major commercial banking institutions designed to improve their institutional capacity to innovatively develop and manage SME lending portfolios, and to develop innovative financial products for the SME sector. A complementary focus will be provided to helping the SME sector interface effectively with commercial banking institutions (already a significant focus of the current CED Program). Finally, program activities in this area will also be expected to focus on the development and implementation of innovative capital market financing strategies and mechanisms for the SME sector.

Illustrative activities in this area could include:

- a) Provision of operational and financial management training and related technical support to selected SME's directly and through the staff of local consulting and business association organizations;
- b) Provision of training and related technical support designed to help individual SME's SME clusters meet relevant technical norms/standards;
- c) Development of market linkages designed to better integrate an SME firm or cluster of firms with downstream processing and/or marketing companies;
- d) Provision of strategic training and related technical support to commercial banks designed to transform the credit analysis/administration capacity of those institutions in relation to the SME sector.

In addition, USAID should develop effective strategic programs to support sustainable market based micro-lending activities, most urgently needed in rural areas traditionally isolated from the formal financial system. This could include programs that efficiently provide support to (1) the micro-lending arms of formal financial sector institutions; (2) the development of integrated micro-finance support programs through which formal financial sector institutions provide second-floor funding to specialized microfinance organizations; and/or assistance to non-bank savings and loan institutions with rural outreach to help them develop the products, services and techniques to expand the delivery of financial services to rural clients.

B. Agribusiness Partnership Development

The program will focus on addressing critical management, technology transfer and market development/access constraints which limit the growth capacity of the Colombian agribusiness sector. This is large and critical component of MIDAS, the core focus of which is to promote private sector investment and involvement in alternative development agribusinesses. The component should respond to and support private sector initiatives that benefit rural families in illicit production regions. Wherever possible, these activities should have a significant employment, income, and export generation impact, and should identify interventions which maximize the downstream employment and income linkages/impacts at the farm and rural community level. It is envisioned that this component should target at the upstream end of the value chain rural families in illicit production regions and vulnerable zones within USAID's identified growth corridors to help them by supporting strategic alliances between agribusiness firms and these families. Thus, this component will work to promote private sector agribusiness linkages with agricultural producers, encouraging a shift from illicit products to legal activities, or ensuring that rural producers and labor force participants have strong incentives to remain uninvolved in illicit production or related activities. It will also focus intensively on effectively addressing critical market development constraints at key value chain links; and building market-based institutional networks which promote the sustainability of the employment and income generation impacts of these programs.

Given the broad range of high potential growth sectors in the agri-business area, which covers a range of fruit/vegetable, long-term crops, and livestock products, it will be critically important to define strategic sub-sectoral targets of opportunity in a manner which will maximize the program's benefits for participating rural families in terms of sustainable impact on income, employment, and/or export expansion, as needed. Building upon and strategically expanding and deepening the progress achieved under USAID's current Colombian Agribusiness Partnership Development (CAPP) Project, this component of MIDAS will be expected to forge strategic public/private institutional alliances in a manner which galvanizes major private sector investment resources and ensures the long-range sustainability of the employment and income impacts of the program. In this regard, the major foci should include strengthening participating rural families/farmers' associations and effectively addressing the competitiveness constraints

which limit the employment and income generation potential of the value chains related to these products.

Illustrative activities include:

- a) provision of technology transfer-related training and technical support to the strategic alliances placed in operation through the project, as well as to participating agribusiness firms , to improve productivity/operational cost-efficiency;
- b) development of strategic institutional linkages at the national and international level which improve the timeliness and quality of relevant market information to specific agro-industries or a value chain-linked group of enterprises;
- c) provision of training and related technical support designed to improve the capacity of an agribusiness firms, value chains, or cluster-linked groups of firms to meet relevant sanitary/phyto-sanitary norms and standards;
- d) development of innovative financial products designed to secure competitive longer-term financing for a value chain-linked group of enterprises. USAID/Colombia's strategies will build upon the current successes that Mission programs have garnered in this important area of private agribusiness development and expansion in activities related to AD, as well as, other innovative approaches that would lead to significant progress and accomplishments.

C. Commercial Forestry Development

The program will be focused on the development and implementation of strategic management upgrading, technology transfer and market development/access programs designed to facilitate the development of sustainable commercial forestry niches, reflecting Colombia's significant employment and income generation potential in this sector. This will include a strategic focus on agro-forestry and wood product related value chain and cluster development opportunities, and related plantation forestry development and management initiatives.

It will also entail a focus on improved natural forestry management planning and implementation capacity. In all these areas, the program will build upon progress currently being made through the Colombia Forestry Development Program (CFDP). The program will be expected to focus on key market niches whose galvanization through targeted value chain and cluster development will expand forestry development-related employment and income growth, while simultaneously contributing to improved conservation and environmentally-friendly management of forestry resources.

A critical focus will be on improvement in market integration through improved access to market information and commercialization channels; as well as through significant improvement in productivity and quality management characterizing forest product transformation and processing activities. A strong focus will be provided to building local institutional capacity (through specific cluster/value chain linkages and at the broader industry association level) to meet relevant technical norms and standards.

Illustrative activities could include:

- a) Provision of training and related technical support designed to upgrade technological and quality management practices in forest product transformation and processing facilities;
- b) Provision of training and related technical support for the establishment and efficient operation of forestry-related processing centers;
- c) Provision of training and related technical support at the individual enterprise and value chain/cluster level designed to facilitate adherence to relevant technical norms and standards;
- d) Strategic technical support designed to facilitate forestry sector access to longer-term market-based financing through the design of innovative financial products.

D. Crosscutting Themes:

1. Priority Economic Policy/Institutional Reform Areas: The program will be expected to focus intensive technical/training and limited financial support on efforts designed to effectively address critical policy and institutional constraints to private sector investment and income/export/employment growth. These programmatic interventions will be tightly linked to intensive ongoing policy dialogue efforts with the GOC counterparts to promote major economic policy/institutional reforms in specific sectoral areas.

The priority economic policy/institutional reform areas which MIDAS will, in close coordination with other major donors, focus on are expected to include but will not be limited to the following areas:

Macro/Fiscal Reform: Illustrative initiatives in this area could include:

- 1) Technical/training support designed to facilitate a systematic restructuring the current distorted taxation regime and lessen the overall tax burden on investment capital;
- 2) Technical/training support designed to improve the competitiveness and transparency of the public procurement system;
- 3) Technical/training support designed to improve the efficiency and equity characteristics and the financial sustainability of the intergovernmental finance regime, and improve the revenue raising-incentive effects of the system on local governments; and
- 4) Technical/training support designed to facilitate the effective implementation of pilot property tax reform programs designed to significantly improve the buoyancy and resource-neutrality of local taxation regimes (e.g. through the introduction of self-valuation methodologies for property tax assessment).

Financial Sector Reform:

Effective programmatic initiatives in this area will require a tightly coordinated and prioritized strategic mix of policy reform and institutional strengthening interventions. At the institutional level, this would involve working with formal financial institutions and/or NGO's on the development and application of innovative financial products

designed to improve competitive access of SME's and micro-entrepreneurs to market-based financing on a sustainable basis. Illustrative program activities in this area could include:

- 1) An intensive policy analysis program designed to address key financial sector policy distortions and develop/propose a transitional policy framework towards an alternative financial sector institutional architecture;
- 2) An intensive technical/training support program, integrated with other MIDAS program elements, designed to promote the active transition to more innovative/flexible customer-oriented loan analysis and administration practices among banking institutions and related development of innovative financial products; and
- 3) The development of innovative market-oriented micro-lending support programs with relevant formal financial sector and NGO institutions (with a strong focus on rural areas).

Core Enabling Financial and Business Sectors Reforms: Illustrative activities in this area could include:

- 1) Technical/training support designed to develop/implement critical reforms of the bankruptcy regime;
- 2) Technical/training support designed to develop/implement critical reforms of the foreign investment legal regime;
- 3) Technical/training support to the implementation of a unified system of real property registration and technical/training and limited financial support designed to facilitate the adoption and implementation of a unified collateral registration system.

Technical Barriers to Trade (TBT)/Sanitary and Phyto Sanitary (SPS) Reforms:

In the SPS area, Colombia will face daunting policy and institutional challenges in (1) conforming the major regulatory contours of its SPS oversight system (registration, risk analysis, risk mitigation, monitoring/tracking, approval/ certification) for plant/vegetable products, live animals, and processed food products to international requirements; and (2) developing the institutional capacity to effectively enforce those requirements.

Illustrative support efforts in these areas could include:

- 1) Provision of training and expertise to a core group of business consultants in key industry norms/standards and key SPS norms/processes; and to build greater private sector awareness of the challenges and opportunities associated with these issues;
- 2) Related development of regulatory reforms designed to promote certification processes which facilitate enhanced reliance on private sector agents to carry out core TBT and SPS processes to build industry compliance capacity in key sectors; and
- 3) Technical/training and limited financial support to expand the capacity of both the public and private sectors to effectively define and enforce key industry norms/standards.

Land Access and Market Development:

From both perspectives--stability through inclusive development and ample participation in commerce--it is critical to introduce legal/regulatory and related institutional reforms that will lead to greater coherence of property rights information, allow more expedient regularization of informal and other irregular land tenure situations and encourage formal land market participation. In terms of fomenting systemic change in the land market access area, the most critical institutional targets of opportunity will likely prove to be: (1) the re-allocation of seized lands from extra-legal groups; and (2) the development and implementation of systemic legal/ administrative mechanisms to facilitate the exercise of clear land ownership and transfer rights by IDP's. These include critical legal, regulatory, and administrative changes required for more effective land markets and tenure security.

Illustrative activities in this area could include:

- a) Technical assistance for continued development of solutions to bottlenecks in the implementation of measures called for under Decree 2007 (Colombian Law No. 2007 issued September 24, 2001), relating to clarifying/protecting the real asset ownership/disposal rights of displaced people (including possible use of mobile registration and legal services);
- b) Application of these new solutions to tenure regularization in the context of demobilization and distribution of seized lands where return of displaced persons is not involved;
- c) Development of strategic administrative tools/mechanisms to reduce land market information asymmetries e.g., model contracts, legal briefs, introduce registration of rental contracts;
- d) Development of innovative incentive-based programs to support the expeditious and productive reallocation of the massive amounts of seized lands;
- e) Prioritization of needs and options for generalized claims processing in relation to demobilization and displaced persons; and
- f) Development of strategies which foster intensive land market access links to agribusiness and commercial forestry development efforts.

II. Justification for Environmental Determination:

The following activities of MIDAS are not expected to have significant impacts on the environment:

- a) Provision of operational and financial management training and related technical support to selected SME's;
- b) Provision of training and related technical support designed to:
 - a. help individual SME's or SME clusters meet relevant technical norms/standards;
 - b. to commercial banks designed to transform the credit analysis/administration capacity of those institutions in relation to the SME sector,
 - c. to the strategic alliances placed in operation through the project, as well as to participating agribusiness firms to improve productivity/operational cost-efficiency; development of strategic

- institutional linkages at the national and international level which improve the timeliness and quality of relevant market information to specific agro-industries
- d. to improve the capacity of an agribusiness firms, value chains, or cluster-linked groups of firms to meet relevant sanitary/phyto-sanitary norms and standards
 - e. to upgrade technological and quality management practices in forest product transformation and processing facilities
 - f. at the individual enterprise and value chain/cluster level designed to facilitate adherence to relevant technical norms and standards
 - g. to effectively address critical policy and institutional constraints to private sector investment and income/export/employment growth;
 - h. development of market linkages designed to better integrate an SME firm or cluster of firms with downstream processing and/or marketing companies;
 - i. development of innovative financial products designed to secure competitive longer-term financing for a value chain-linked group of enterprises;
 - j. promote major economic policy/institutional reforms in specific sectorial areas.

These activities qualify for a categorical Exclusion under 22 CFR; 216.2(c)(2):

- (i) Education, technical assistance, or training programs except to the extent such training programs includes activities directly affecting the environment (such as construction of facilities, etc.);
- (iii) Analyses, studies, academic or research workshops and meetings;
- (xiv) Studies, projects or programs intended to develop the capability of recipient countries to engage in development planning, except to the extent designed to result in activities directly affecting the environment (such as construction of facilities, etc.).

Certain components of MIDAS projects could have potential environmental impacts. These include the activities related to the production of fruit/vegetable, long-term crops, forestry and agro forestry, and livestock products. In general, the following activities:

- a) new productive enterprises for licit sustainable activities,
- b) to promote private sector investment and involvement in alternative development agribusinesses,
- c) support private sector initiatives that benefit rural families in illicit production regions
- d) promote private sector agribusiness projects
- e) agro forestry and wood product related value chain,
- f) plantation forestry development and management initiatives,
- g) improved natural forestry management planning and implementation capacity

- h) improved conservation and environmentally friendly management of forestry resources
- i) improvement of the productivity and quality management characterized forest product transformation and processing activities

Some crops may include the use of pesticides.

In year 2004, USAID/Colombia, prepared and submitted to USAID/LAC/BEO, for approval the following Environmental Assessments, which were approved with the following Environmental Threshold Decisions (ETDs):

- Programmatic Environmental Assessment For SO1, SO2 and SO3 USAID/Colombia Strategic Objectives. The PEA was approved by USAID/LAC/BEO on 4/28/03.
- Natural rubber, ETD, ETD USAID/LAC-EA-04-06 issued on 3/19/04
- Hearts of palm, ETD USAID/LAC-EA-04-01 issued on 2/11/04
- Cocoa, ETD USAID/LAC-EA-04-14 issued on 6/18/04
- Passion fruit, ETD USAID/LAC-EA-04-09 issued on 6/02/04
- Yucca (cassava), ETD USAID/LAC-EA-04-02 issued on 2/11/04
- African oil Palm, ETD USAID/LAC-EA-04-03 issued on 2/13/04
- Colombia Forestry Development Program, ETD USAID/LAC-IEE-03-25 issued on 5/13/04

USAID/Colombia Mission through Chemonics and ARD-CAPP prepared a Pesticides Evaluation report and Safer Use Action Plan (PERSUAP), which covers more than 80 different crops. Attached is the list of the crops included in the PERSUAP (Annex 1). USAID/LAC/BEO approved such PERSUAPs with Environmental Threshold Decisions Nos. USAID/LAC-IEE-04-03 and USAID/LAC-IEE-04-24 dated 1/27/04 and 5/31/04.

The environmental impacts of most agricultural crops production and processing are analyzed in the different environmental guidelines developed by USAID/Colombia, USAID/LAC, and the Colombia Ministry of Environment. These environmental guidelines make a full analysis of the crop production and processing steps and indicate clear and affordable mitigation measures. These guidelines cover most of the crops to be developed by MIDAS program. Attached is the list of the crops for which USAID/Colombia Mission has environmental guidelines (Annex 2).

USAID/Colombia also has a set of environmental guidelines for small infrastructure and industrial projects, developed by USAID/LAC. These guidelines cover the activities of rural roads construction and improvement, small scale construction, small water and sanitation systems, housing, renewable energy, leather processing, food processing, and wet textile operations (See Annex 2).

In 6/30/04, USAID/Colombia, prepared and submitted to USAID/LAC/BEO, for approval the Colombia Forestry Development Program (CFDP) Environmental

Assessment, which was approved by the LAC/BEO on August 2, 2004. The CFDP EA established:

Forest management is in itself a mitigation measure for current poor logging, forest degradation through poor or no management, and deforestation. Best management practices that are recognized by different international bodies, perhaps most notably the Forest Stewardship Council (FSC), exist and serve as the basis for implementing the CFDP. These principles and criteria have served as the basis for development of Colombia-specific forest management standards for natural and planted forests by the Technical Group on Voluntary Forest Certification (GTCFV). The EA defined a process or set of activities that are used to assure CFDP and USAID that these best management practices are indeed being applied and produce the intended positive impact on the environment in the affected areas. FSC certification could possibly be the best mitigation measure to subscribe to and will be pursued in all CFDP supported activities.

IV. Recommendation:

Based on the above discussion, it is recommended that the USAID/LAC Bureau Environmental Officer (BEO) approve:

9. A **Categorical Exclusion** is recommended for the following MIDAS activities: Provision of operational and financial management training and related technical support to selected SME's; provision of training and related technical support designed to: help individual SME's or SME clusters meet relevant technical norms/standards; commercial banks designed to transform the credit analysis/administration capacity of those institutions in relation to the SME sector, the strategic alliances placed in operation through the project, as well as to participating agribusiness firms to improve productivity/operational cost-efficiency; development of strategic institutional linkages at the national and international level which improve the timeliness and quality of relevant market information to specific agro-industries,
10. A **Negative Determination with conditions** is recommended for the activities of producing and processing natural rubber, hearts of palm, cassava, passion fruit, cacao, oil palm, forestry and agro-forestry, with the condition that the recommendations from the USAID/LAC/BEO approved Environmental Assessments for these activities, will continue to be applied in full and used in the implementation of the projects. The Mission Environmental Officer and CTO will oversee the use of these EAs in the implementation of the projects by the contracting organizations. Reports on these matters will be submitted by the Mission to the USAID/LAC/BEO on an annual basis.

11. A **Negative Determination with conditions** for the activities of agricultural producing and processing the products mentioned in the list of guidelines (Annex 2). The condition is that the mentioned guidelines will be fully used and applied in the implementation of these activities. The Mission Environmental Officer, CTO, and contractor(s) will oversee the use of these guidelines. Reports on these matters will be submitted by the Mission to the USAID/LAC/BEO on an annual basis.
12. A **Negative Determination with conditions** is recommended for the use of pesticides in the production of the attached list of agricultural products included in the approved PERSUAP (Annex 1), with the condition that the recommendations from the PERSUAP will continue to be fully applied in the implementation of these activities. The Mission Environmental Officer, CTO and contractor(s) will oversee the implementation and use of the PERSUAP. Within the first six months of implementation of MIDAS, the mission will conduct a complete evaluation of the listed Programmatic Environmental Assessments, EAs, PERSUAP and other mission environmental guidelines to determine their effectiveness. This evaluation will be approved by the Mission Environmental Officer and the USAID/LAC/BEO. Additional reports on these matters will be submitted by the Mission to the USAID/LAC/BEO on an annual basis
13. A **Negative Determination with conditions** is recommended for the industrial activities of leather processing, food processing, and wet textile operations with the condition being the full use and application, in the implementation of the projects, of the listed Guidelines (Annex 2). The use of this Guidelines and their implementation will be overseen by the Mission Environmental Officer, CTO and contractor(s). Reports on these matters will be submitted by the Mission to the LAC/BEO on an annual basis.
14. A **Negative Determination with conditions** is recommended for the development and implementation of strategic management upgrading, technology transfer and market development/access programs designed to facilitate the development of sustainable commercial forestry niches, agro-forestry and wood product related value chain and cluster development opportunities, and related plantation forestry development and management initiatives; with the condition being to follow the same procedures established in the EA for the CFDP as follows:
 - a. All forest management plans developed under the MIDAS program should use the CAD-developed Villa Garzon management plan format, approved by the BEO, as the basis for their development. Improvements to the plan should be proposed and implemented based on ongoing experience in Putumayo, as well as other projects funded by USAID throughout the region.
 - b. Likewise all forest management plans should be based on the FSC principles and criteria and standards established by the Technical Working Group for Voluntary Certification in Colombia (GTCFV). One of the

goals of the forest management activities should be to become certified by some recognized certificating organization.

- c. The MIDAS program shall plan training programs in the different regions on sustainable forest management plan development, implementation and monitoring. Audience target: communities, loggers, forest product companies, NGOs and local government officials in the CARs and municipalities. These training programs should use the Villa Garzon management plan outline as the basis for these courses. Additional themes such as the importance and identification of archeological sites and the relationship between the management unit and surrounding protected areas should be included in the training.
- d. The MIDAS program shall contract support from the GTCFV to provide training on certified forest management and the certification process. These activities should be clearly integrated with the other MIDAS training programs.
- e. An overall training program on issues related to the significant and non-significant issues and the overall environmental review program related to forest management should be presented to the CTO and MEO for their approval on an annual basis. While to a certain extent, this is in the LOP work plan, the mentioned training activities should be reviewed and incorporated into a more detailed training plan.
- f. The Regional Environmental Advisor (REA) will be in charge to review each forest management plan to determine that the plan is indeed compatible with the FSC principles and criteria and USAID regulations. Note that later in the project life and after training supported by the MIDAS program, this task may be delegated to specific CARs if they are determined capable of playing this role.
- g. A separate contract should be competitively issued to design and conduct an initial study and subsequent system to assess, document, and monitor the environmental impact of the forest management activities. This should be done within one year of the initial harvesting activities under the forest management plans.
- h. The MIDAS program should provide the appropriate documentation to the CTO and MEO to assure that these steps are being completed. To do so, they should identify a team member to be responsible for and oversee this process.

15. A **Positive Determination** for the production and processing of agricultural projects not included in the list referred to points c) and e) of this approval, and for other infrastructure, and/or industrial projects that may cause significant environmental impacts. Following the present determination, the Mission will use a similar procedure to that utilized in 2002 to 2004, taking special care to follow the ER procedures established in the PEA approved by LAC/BEO on 4/28/03. Based on these procedures, the MEO will determine which activities/projects may use the ER process and which activities will require the preparation of an EA.

Environmental considerations, including monitoring and training, will be included in contractual documents related to the above components of SO2.

Approval:

Gabriel Escobar
Mission Environmental Officer

Date: _____

Concurrence:

Michael J. Deal
Director USAID/Colombia

Date: _____

Bruce Bayle
Regional Environmental Adviser

Date: _____

Approval:

Victor Bullen,
USAID/LAC Bureau Environmental Officer

Date: _____

Clearances:

Charles Owen, AD Officer _____
D. Craig Anderson, SADO _____
Jeffrey Goebel, ASProgram Officer _____

INITIAL ENVIRONMENTAL EXAMINATION**SO2: Additional Investment for Sustainable Alternative Development (MIDAS)****Annex I: Crops included in the approved PERSUAP**

Aguacate	Esparragos	Patilla
Ahuyama	Estevia	Pepinos
Aji	Fique	Peras
Ajonjoli	Flores	Pimenton
Algodón	Forestales	Pimienta
Anonaceas	Fresa	Piña
Apio	Frijol	Plantaciones Forestales
Arroz	Frutales	Plantas Medicinales
Arveja	Guanabana	Platano
Avena	Habichuela	Pompon
Banano	Hortalizas	RemoUSAID/LACh
Batata	Lulo	Repollo
Bosques	Maiz	Roble
Brocoli	Mango	Rosas
Cacao	Mani	Semillas
Caducifoleas	Manzanas	Sorgo
Café	Maracuya	Soya
Cana de Azucar	Medicinales	Stevia
Caucho	Melon	Tomate
Cebada	Mora	Tomate de Arbol
Cebolla	Ornamentales	Trigo
Ciruelas	Palma Africana	Vainilla
Citricos	Palma de aceite	Viveros
Claveles	Palmito	Yuca
Crisantemos	Papa	Zanahoria
Cruciferas	Papaya	
Cucurbitaceas	Pastos	
Curuba		
Durazno		

INITIAL ENVIRONMENTAL EXAMINATION**SO2: Additional Investment for Sustainable Alternative Development (MIDAS)****Annex II: Environmental Guidelines:**

USAID/COLOMBIA Actividades agrícolas en general
 USAID/COLOMBIA Actividades agrícolas en gran escala
 USAID/COLOMBIA Agroforestales y silvopastoriles
 USAID/COLOMBIA Cultivos anuales de subsistencia
 USAID/COLOMBIA Cultivos permanentes
 USAID/COLOMBIA Especies menores
 USAID/COLOMBIA Extracción de productos no maderables del bosque
 USAID/COLOMBIA Ganadería extensiva
 USAID/COLOMBIA Piscicultura
 USAID/COLOMBIA Plantaciones forestales y extracción forestal

USAID/COLOMBIA Plantaciones Frutales
USAID/COLOMBIA Procesamiento de productos de la granja
USAID/COLOMBIA Productos no frutícolas de plantaciones
USAID/NICARAGUA Proyectos de rehabilitación de caminos rurales
USAID/SALVADOR Proyectos de reconstrucción
USAID/LAC Agricultura y Aguas
USAID/LAC Agroforestería
USAID/LAC Carreteras Rurales
USAID/LAC Conservación de suelos y aguas
USAID/LAC Construcción en pequeña escala
USAID/LAC Desechos sólidos residenciales, comerciales e industriales
USAID/LAC Ecoturismo
USAID/LAC Gestión Forestal
USAID/LAC Infraestructura
USAID/LAC Irrigación y drenaje
USAID/LAC Manejo integrado de plagas
USAID/LAC Microcentrales eléctricas
USAID/LAC Microempresas en General
USAID/LAC Pequeña minería
USAID/LAC Pequeñas y micro empresas
USAID/LAC Procesamiento de alimentos
USAID/LAC Procesamiento de pieles
USAID/LAC Producción de ladrillo y baldosas
USAID/LAC Protección de orillas de ríos
USAID/LAC Reforestación
USAID/LAC Residuos en centros de salud
USAID/LAC Sector Forestal
USAID/LAC Suministro de agua y saneamiento
USAID/LAC Textiles
USAID/LAC Vivienda
MINISTERIO MEDIAMBIENTE COLOMBIA Algodón
MINISTERIO MEDIAMBIENTE COLOMBIA Guía Ambiental para el manejo de Residuos sólidos
MINISTERIO MEDIAMBIENTE COLOMBIA Guía Ambiental para el Sector Porcicola
MINISTERIO MEDIAMBIENTE COLOMBIA Guía Ambiental para Horticultura y Fruticultura
MINISTERIO MEDIAMBIENTE COLOMBIA Manejo de Residuos sólidos
MINISTERIO MEDIAMBIENTE COLOMBIA Palma de Aceite
MINISTERIO MEDIAMBIENTE COLOMBIA Producción de Arroz
MINISTERIO MEDIAMBIENTE COLOMBIA Producción de Azúcar
MINISTERIO MEDIAMBIENTE COLOMBIA Producción de Banano
MINISTERIO MEDIAMBIENTE COLOMBIA Producción de Fique
MINISTERIO MEDIAMBIENTE COLOMBIA Producción de Panela
MINISTERIO MEDIAMBIENTE COLOMBIA Producción de Panela
MINISTERIO MEDIAMBIENTE COLOMBIA Producción y mejoramiento de Café